TRANSCRIPTION

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Derek O'Neill: Good morning everyone. Firstly, I would just like to say that also joining us today is Craig White, our CFO. Also, we've got the benefit and advice of Paul Naude, our US General Manager. I would like to just welcome everyone on the call. I think that you've probably already devised that my voice is a bit croaky; I've got a bit of a cold. I would also like to welcome everyone onto the live webcast as well. I would just like to advise everybody that an unedited text of this call will also be available sometime later this afternoon on www.billabongbiz.com.

Well, it has certainly been an interesting couple of months for everyone, particularly those of us that operate in international markets. As you all know, we generate more than 80% of our revenue offshore. So we've not only been reading the headlines about economies in decline, but we've been doing business in those economies as well.

That has given us a pretty good understanding of the challenges in different regions in the future, and importantly has helped has adapt our business to reflect the changing environment. As I see it, the highlights of Billabong in the period include: we've grown market share in our core channel, without compromising on our regular pricing policies, our brand equity, or our distribution.

We certainly had strong initial contributions from our acquired businesses, and they really drove our top line performance. But well over 90% of both the NPAT and the EBITDA was still generated out of the existing business. At a regional level, Europe achieved excellent growth and improved margins. Australasia continued to grow and retain very strong EBITDA margins. And the Americas had strong reported revenue growth.

I think it is important to note that the wholesale business continued to generate EBITDA margins slightly above 20% in a most challenging climate. Looking forward, we retain a pretty healthy forward order book. We have sustainable improvements in the group's effective tax rate. We have maintained our interim dividend payment in line with the previous half.

We are anticipating reported full year revenues will be up more than 25%. And we remain on track for good EPS growth across the full year, in line with prior guidance. We're also expecting some cost savings and supply chain benefits, and they'll help to improve margins in this second half.

Now, I know many of you will have questions about the US, so I'll quickly touch on a few points there. I think it's a market you have to visit to understand the complexities and urgency of the situation there. It really seems as though most areas of the US economy are experiencing record or near record declines. So when we look at that and then the performance of our competitors, I really believe the results from our US business are strong.

The US retail markets are in incredibly rapid decline late in the half. As you would expect, this hit our own retail business. Not only was it hard to forecast the immediacy of the decline, it was obviously difficult to make the appropriate business adjustments and benefit from those in such a short period of time. We are making the necessary adjustments to our business, and the benefits will begin to flow through in the second half.

Looking to our wholesale business, it continues to deliver strong EBITDA margins, and we've further reduced our exposure to larger mall-based customers. So if anything, we've actually tightened distribution. We've also added to our great portfolio of brands, and not only did they perform well, but they'll also benefit from some operational synergies within the supply chain and the distribution.

If you're looking at overheads, I haven't placed a dollar figure on the overall group savings we expect. But, as a further example, during the half we had a 5% reduction in personnel within the Australian wholesale business through natural attrition and job sharing. I would also just remind you that we're forecasting very strong revenue growth this year, and we need to ensure we retain an appropriate structure to drive that.

We also have to retain our focus, which has never wavered, on making decisions that are in the best long term interests of the company. So while there are a lot of external forces that are buffering our business, remain focus on these things that we can control. If we can do that, I'm confident we will further enhance the integrity of our brands and ensure the ongoing health of our business. I will now just hand the call over to questions.

Question: (Daniel Broeren, ABN Amro) Hi guys, I just had a couple of questions on working capital. On a constant currency basis, it appears both inventory and receivables have increased ahead of constant currency sales. So I guess just firstly on the inventory, are you able to give us an idea of the regionality of the increase there in inventory?

Craig White: Daniel, it's Craig here. I think, first of all, on the whole area of working capital, you've obviously got the impact of acquisitions in there as well. I think if you strip out the acquisitions, the receivables line is pretty much where you would expect it to be. We haven't seen a deterioration in the ageing of receivables, which has been pleasing given the current environment.

I think inventory, even when you exclude acquisitions, is a little higher. And that's not specific to any one region, certainly not all in the US. I think if you look across each of the major regions, you would find that it's reasonably evenly spread.

Another point perhaps to note on that is that I think the actual ageing of the inventory has actually improved relative to the same period last year. So where the increase in inventory has occurred is basically in current season product. That's probably reflective of the trading conditions that we're in.

Question: (Daniel Broeren, ABN Amro) So you're suggesting that trading conditions deteriorated significantly in December?

Craig White: Well, not only just in December, but certainly in the latter part of the year. I think we obviously, as we've flagged previously, have timed up management of accounts. There would be some accounts that we probably didn't shift if we didn't feel confident we were going to be collecting the receivable. You know, if there is any increase in current season inventory, I think we'll manage that over the next six to nine months.

Derek O'Neill: Daniel, if I can just interject there, I can tell you that certainly our retail performance in December, primarily in the US, was certainly somewhat worse than we expected. Certainly when we had that call in early December, it continued to accelerate in December and it wasn't a fun month.

Question: (Daniel Broeren, ABN Amro) So I guess then, looking at your provisions line Craig, I noticed that that hasn't increased too much from the previous year. Are you happy with where that's sitting at the moment?

Craig White: I think the short answer to that is yes. We've obviously looked at both inventory and receivables provisions, and we're comfortable with where they're at.

Question: (Daniel Broeren, ABN Amro) Just one general comment on the strategy that you're taking with your sales, you've maintained pricing in an effort to maintain equity in the brand. The inventory has built up a little bit. Is that something that you're worried about, that strategy going forward? Will you be maintaining that strategy or will you be looking to discount a little bit more to try and clear that stock when you've got an opportunity to?

Derek O'Neill: I think that overall we'll work harder at converting a lot of that into cash. The fact is that one of the things which you are in retail is that – we virtually wouldn't have one store that could put in even 30% of a full season's line. The fact is that you can still introduce, particularly in the countries that are warmer for eight or nine months of the year, you can still introduce fairly fresh product into that channel, quite regularly freshen up the store.

But we'll work harder a little bit on the inventory we have. I think we've got pretty efficient clear-out channels with our outlet stores. The outlet store business in some countries has been quite healthy. I think that that will remain buoyant. Most of the inventory effectively is really current inventory. Therefore, we think over the next two to three months we'll really work hard at getting that down.

Through the rest of this period, all regions are very much focused on holding less inventory in the seasons to come. So just with regards to buying, the way we purchase the product, we've indicated to our retailers we expect to have less product available for repeats. If the product they want is not available, then we'll try to sell them something else. That's the way we're approaching inventory.

Question: (Daniel Broeren, ABN Amro) I guess, on a bit of a lighter note, the sales result from Europe was very strong. Can you just talk through some of the drivers there and what you've done to maintain or to grow sales in that region?

Derek O'Neill: Well we've already been very disciplined in our distribution in Europe. I think that has been paying dividends for quite a while. Europe has always had a solid result now for about three or more years. The amazing thing is that the regions that we saw growth in, and we're still seeing growth in, some of those are officially in recession and we still seem to be getting fantastic results coming out of them.

I think that some of those countries, like Germany and Italy, there's still a very strong momentum thing going on. We're getting more and more popular and it's still going really well. Eastern Europe, Central Europe, has been good. Spain has been a little weak. The economy has been really hit there. It just seems to have affected us a lot more than anywhere else.

I think I want to call out the UK as well. The UK actually had a pretty good period. One of the disappointing factors is that between the end of June 2008 and the end of December, the Pound dropped about 30% against the Euro, so our actual invoicing in Pound, when it was converted back into Euros, had quite significant depletion on the EBITDA results.

So in fact the European EBITDA result would have even been stronger with a half decent currency rate between the Pound and the Euro. So I think Europe definitely is the highlight region. It has been for a little while, and I expect probably will be over the next six months as well. They're doing a pretty good job there.

I think everyone was a little concerned that what was happening in the US would just naturally flow through into Europe. Overall, we've seen in the UK a lot of general economic factors have been pretty awful frankly, but we've somewhat rebased there over the last year and certainly in Pound terms we're getting some quite steady growth.

Craig White: Just to add to Derek's point on the UK, Daniel, the FX loss out of the UK was just under $1 million Euro. If we hadn't had that, the European result would have been even stronger.

Question: (Phil [Kindler], Goldman Sachs JBWere) I'm just wondering if you could give a bit more colour on the forward order outlook and repeat outlook by region. I know you've made some broad comments, but more colour would be great.

Derek O'Neill: I'll take that one. The forward order book is – we've said it's pretty good. I'll just explain that a bit. Certainly in Australia, when you add up all the brands, we're looking positive in this half in Australia. It's a very quite low positive, but certainly business is okay in Australia.

It's not going to set the world on fire, but business is okay. Certainly January was a strong month at board sports in Australia, and the latter part of December seemed to be pretty good too. So we're anticipating a reasonable time in Australia. In Europe, we've got sort of a high single digit type forward order book, so I think that's okay as well.

If we look at the forward order book in the USA, if we look at the speciality store base – I'm talking the non-mall sector here – we've got a slightly positive forward order book within the core business. Then if we add decline on, then we've got a really quite strong forward order book, well in double digits within that US market.

Certainly though, if we look in not all but some of the bigger retailers in the mall sector, we've got some quite substantial declines as they all seem to be reducing the amount of inventory on the floor; and some want margin demands or pricing demands that frankly we just don't want to go there. So, effectively, in the speciality it's a quite good forward order book. In some of the more price-orientated mall stores at the moment, it's not so good. Frankly, we're not concerned with that direction at all.

Question: (Phil [Kindler], Goldman Sachs JBWere) Maybe following on from that point, there has been some news flow on some of those big mall customers about value offerings. I mean, Macy's is reorganising. I don't know if yourself or Paul can comment on what other risks you may have to fast-track, just not supplying some of these guys.

Paul Naude: For this quarter, we… Look, as Derek said, we've chosen not to compromise the brand's integrity by lowering retail selling price points, because it just doesn't work when the majority of our count basis is independent speciality stores. So we have chosen to reduce our exposure in some of the mall-based chains.

We believe that with the mix in our brand portfolio we can pick up some of those shortfalls in the second half. What we're also seeing is we're definitely starting to see a reduction in the amount of excess inventory in the market as people simply can't capitalise inventory on a maybe and trying to see that clean up a little bit which we think bodes well for us in terms of repeat business as we get into the traditionally stronger Easter and summer period.

Question: (Phil [Kindler], Goldman Sachs JBWere) Can I ask a question on the working capital, it may just be my lack of accounting knowledge but you know some of your working capital obviously if you had some debtors in the US at 100 US six months ago, they're now worth…even if they're still 100 US they're now sort of 150 Aussie…obviously increases your receivables for example in the balance sheet. Where is the other side of that going? Is that coming through the cash flow or is there some revaluation reserve that I can't see?

Craig White:	Well I mean when you're restating those balance sheet items as foreign currency relation reserve in the balance sheet Phil, so that's not going through the P&L.
Question:	(Phil [Kindler], Goldman Sachs JBWere) Okay and that's not having an impact on your cash flow, the weak cash flow was not FX related?
Craig White:	No.
Question:	(Phil [Kindler], Goldman Sachs JBWere) Okay and then really the last one I had was just the debt, the same thing happens you've got FX translation obviously making your debt a lot higher in Aussie dollar terms as well as acquisitions. I know you've renegotiated your borrowing facilities, but is there any issue about that from a bank perspective with covenants? You know the Aussie dollar impact on the debt rates?
Craig White:	The answer to that Phil is no, but let me just explain. First of all you're right we obviously borrow in multiple currencies around the world, predominantly US dollars. So on the US component when that is translated into Australian dollars with the weaker Aussie dollar against the US that obviously results in a bigger Aussie dollar balance. If you look at the absolute increase in net debt across the group over the period…I mean these are rough numbers but just to give you some sort of idea, you'd probably find about $70 million of the increase in the Aussie dollar net debt balance would be due to FX. In the order of $200 million would relate to acquisitions and then the balance would be you know combination of increase working capital as the group has grown, routine capex, the organic retails store expansion. So about $70 million FX, let's say around $200 million acquisitions and the balance the other. So that sort of helps explain the increase in the debt. In terms of the banks and covenants, you'll see that apart from renegotiating the facilities last July what we did after the renegotiation was we effectively

switched the vast bulk of the facilities to have a facility limit denominated in US dollars, not Australian dollars.

So effectively we've now got alignment between the actual US dollar borrowings of the group, which are the bulk of them, and the US dollar facility limit. The A$600 million syndicated facility was switched to a facility with $533.5 million, so it was effectively converted in an exchange rate of $0.89c. We have an overdraft facility for A$100 million that we converted at parity to US$100 million.

So that US dollar facility limit is what governs, if you like, the available headroom to the group and on that we're fine. We don't have any issues.

In terms of the covenants that we have with the banks, we're well within the covenants that we're required to comply with and I think I previously indicated that the principal covenants are a debt cover ratio and a fixed charge cover ratio. Is that clear?

Question: (Phil [Kindler], Goldman Sachs JBWere) Yeah, no that's useful just because obviously it's a big jump and you've explained the facility issue. I was just more concerned on the covenant issue whether the FX could have an impact on that, but you're basically saying it's not having an impact?

Craig White: No, the short answer is no. Because if you think about it what you've essentially got is movements in the Aussie dollar against the US, which is probably the biggest thing that affects the borrowing side, is that you've now effectively got a hedge there where your balance sheet is being translated at a weaker rate but your P&L is also being translated at a weaker rate.

You know say for example, if you calculate your debt cover ratio you're taking the translated Aussie dollar debt over translated Aussie dollar EBITDA. Do you see what I'm saying?

Question: (Phil [Kindler], Goldman Sachs JBWere) Yep, okay thanks guys.

Question: (Sean Cousins, JP Morgan) Good morning guys, just a few points on the US. How much is your juniors business fallen?

Paul Naude: Well in the first half it actually hasn't fallen at all. We anticipate that based on some business that we're choosing to walk away from at a couple of the bigger mall based chains that we will see some slippage in the second half, but to be honest, I'm not overly concerned about it.

Question: (Sean Cousins, JP Morgan) Okay alright. How much are you putting through off price channels? When I'm in the US I can buy your product say t-shirts for $10. I'm just curious how if I'm at a Ross store or whatever how that product gets there, whether or not it's core retailers or retailers sending it to the off price channel or whether Billabong is sending some product to off price channel to clear inventory?

Paul Naude: Well you know since the 80s the entire apparel industry has closed out its excess inventory, broken sizes, poor colours etcetera through the normal close out channels. You know that trend continues with most…with all clothing brands in the United States, if you've been into one of the close out stores like a Marshalls or Ross, you will notice that every brand in the country is available there.

Obviously it is old season product and you know we continue, if we've got broken sizes and leftovers, yeah you may be able to buy a Billabong product there, or an Element product there, as is the case with all brands in the country.

So you know there is no change in that strategy and to be honest, as I say, for decades that's been commonly accepted practice and certainly doesn't affect the independent or regular priced retail channel.

Question: (Sean Cousins, JP Morgan) Has it gone up more this period than last period?

Paul Naude: No.

Question: (Sean Cousins, JP Morgan) Okay, alright. I guess then, I'm trying to get to the bottom of why you're margins have come down so much in the US and retail is a component there but I'm just wondering…it doesn't appear to be mix. I mean within retail, was retail in the US profitable in the half?

Paul Naude: Can you say that again?

Question: (Sean Cousins, JP Morgan) Was retail in the US profitable?

Paul Naude: Yes, retail was profitable. Are you talking about company owned retail?

Question: (Sean Cousins, JP Morgan) Yes, pardon me, company owned retail, yeah.

Paul Naude: Company owned retail was profitable, but to be honest with you not as profitable as we'd like it to be. I don't think anybody could have forecast the negative comps we saw in November and December in retail.

In fact across the United States you're seeing industries far bigger than ours having negative comps in the 30s and I just don't think anybody could have foreseen that. Unfortunately you know those negative comps were exacerbated by the fact that in the two traditionally largest retail months of the year November and December, it was just a macroeconomic issue that I don't think anybody foresaw.

Having said that, to answer your question, yes we were profitable. Were we as profitable as we would like to be? No.

In simple terms the fallout in the EBITDA margin was clearly based on the fact that the sales dollars generating the GP dollars simply weren't what they should have been to support the overhead. In other words, the shrink that took place in November/December, largely at retail, came as a complete surprise to be honest.

Question: (Sean Cousins, JP Morgan) Yeah. I mean when I talk to some of your core customers they question the strategy you're adopting in regards to not discounting and the issue there is that this slowdown doesn't appear like any other in terms of it, so the view of it's protecting your brand etcetera might not be that wise.

My question is have you guys done the calculation of the gross margin compression that you would suffer by participating in markdowns and then how that would help you to avoid the significant operating deleverage that's gone on with your business?

Derek O'Neill: Look I mean we've done a lot of calculations and run a lot of different models Sean. But I put it to you this way, you know already in the specialty channel we feel certainly that we increased our market share. That's the sector that we want to deal in and we don't think that in that specialty channel that…you know the models we run is that if we dropped our prices, I don't know 15% or 20% at wholesale to them, frankly I don't think in absolute dollars we would have done any more business than we've done now.

In units no doubt it would have gone up, but in absolute dollars it would have been the same if not done and probably…no, not probably, definitely the margins would have been atrocious.

So we look at that and go, that's not really an option for us. But then on the other side, do we want to participate in the 70% off type deals that were going on in the malls and in the department stores in that November/December type period? Frankly no one is going to make money out of that; neither the retailer nor the brand, and you run those models and I understand retailers would love to get product a little cheaper but I don't think there is any winners in that race to the bottom on price. It's not a race we want to even be in.

So we take the view that, as Paul indicated, some of that product that was available is now starting to dry up because people that have been giving - including some of our competitors - substantial discounts to retailers it's just not sustainable.

You know we want to continue to invest in our brands and we think that that investment in the brands is far better for those specialty retailers than standing there cutting everything to the bone and just giving them a price break, because we think in the end that's a road to ruin.

Question: (Sean Cousins, JP Morgan) On your positive outlook. In terms of it, so you downgraded your underlying earnings guidance again, but just in terms of the positive outlook from April onwards can you just tell us what gives you confidence about that?

Maybe Paul you're over there, can you tell us why there is a view that April will turn around?

Paul Naude: Well I think that this industry has always had somewhat of a summer/winter imbalance. So in the northern hemisphere we're approaching the summer period which is, as always, even in weak climates there is always seen a spark in sales in our industry. So we don't foresee any change to that.

We really are anticipating increased sales generating more GP dollars. We've addressed some errors of overheads and particularly on the retail front, as indicated in some of the literature you would have read this morning, we're also seeing in terms of increase in EBITA margins, we're seeing some increased pick up in supply chain efficiencies, quota has fallen away as of January 1.

Along with all of these things, I will say that we're not out there bidding the farm on some massive increases, we've adopted a conservative approach, we've adopted a similar level of depressed retail activity in our own retail stores and we believe that we're not really forecasting a massive turnaround on the sales line other than what we think will be achievable in the current market conditions.

Derek O'Neill: Sean I should just add, if you go back to the call in December, the fact is that most of the - let's call it the softening - in real terms most of the softening from that position in December would be related to a more conservative view now in the USA for this half. So you know it's not any big turnaround plan but we're definitely a little less bullish than what we were in December, after we've got through December and January.

Question: (Sean Cousins, JP Morgan) Yeah and finally just in regards to deferred payment, you guys have got some earn outs that may be paid. How do you guys think about earn outs going forward from some of the acquired businesses given what's going on in the market? I think you've got a deferred payment of some $161 million.

Craig White: Yeah Sean when you say how do we think about it, I mean I think each of the acquisitions that were done are structured slightly differently, typically the deferred consideration has the minimum attached to it based on certain conditions being met. But you know I think there is a formula there that says in the year that the earn out is due we'll make a calculation and that will form the base of the payment.

I think in terms of the assessment of what those deferred consideration amounts will be, I mean we've reflected that in the balance sheet at the end of the first half and ultimately those deferred consideration amounts will end up being related to the actual results they achieve.

Question: (Sean Cousins, JP Morgan) I guess the issue is we're going to see some pretty ordinary performance potentially out of some of these acquisitions relative to what you may have anticipated when you bought them, in terms of what these earn outs might ultimately be now could be much less than what they would have been previously.

Craig White: Look I don't…I have to say I think sitting around this table here with Derek and Paul I don't think we would agree with that assumption.

We have no evidence to suggest that any of the acquisitions that we've done are performing poorly.

Derek O'Neill: And won't for the earn out.

Craig White: Yeah exactly. So I don't think there's any view, as I said, that those brands that we've acquired, either this year or prior years, will perform poorly.

Question: (Sean Cousins, JP Morgan) So that means, I think you guys have said, Sector 9 and DaKine will both be EPS accretive in 2009. Is that still the case?

Craig White: Definitely.

Question: (Craig Woolford, Citigroup) Good morning guys. Just firstly, the commentary in the media release about the guidance in the absence of any further significant deterioration in the global board sports market, I just wanted to explore what you're defining by that. Are the conditions in November/December the conditions that you're anticipating in the second half?

Derek O'Neill: No. Look, I mean December was pretty horrific. December definitely got affected by the fact that – I'm talking really the US here. That's probably the major change in this sort of guidance. The fact is that in December, we're sitting there, week two, week three, and wondering where everyone is. We're talking to a lot of different retailers, and they were all wondering where everyone is.

There were some stores in December that had absolute record months in July and August, but by December were down 25%. You're sitting there and you're thinking what's going on. The fact is that, in line with a lot of speciality retailers, it seemed that up until about 18 or 23 December, there was just nobody shopping; and then it was ridiculous how many people were out shopping.

Now, we went 25 off about 5 days before Christmas. The odd selective item that might have been hanging around in the store for a while might have gone a little deeper. But in fact, it really started about 22 or 23 December. Then the malls filled out, everywhere filled up, and suddenly you had this shopping frenzy going on again.

So I think December, as a month, was very difficult not only to predict but very difficult to model for the rest of the year. You had major department stores at 70 off. You know, one of the things we saw was that our outlet business in December, we normally factored in our outlet store business, we should have had a cracker of a December.

In fact, it was almost non-existent because no-one needed to go to the outlet village because the mall was 70 off. So I don't think we want to use December as a model. I mean, every retail banner that we had in December – and I've got to tell you, we had positive comps for the last 10 days of December.

But every retail banner we had – Honolua, [Beach Works], Billabong, and Quiet Flight – all delivered at least minus 20% negative comps for the month of December. And prior to 20 December, it was pretty awful, let me tell you. So we won't use that as a model. We are taking the view that through this period our retail comps are likely to be negative all the way through to the end of June.

I think that's a different view than we took back in December where we thought by April they'll be turning around. We're taking high single, low double digit type negative comp assumptions right through to the end of June. I think that's a conservative way of looking at it. That's certainly a part of the slippage, you might call it, today.

Question: (Craig Woolford, Citigroup) Would you assume that gross profit on a like to like basis would be down a similar amount? So you've got gross margins…

Derek O'Neill: No. You're definitely going to see GP improvements in this half, or we're expecting to. Firstly, there are a couple of things going on. A couple of the acquisitions actually deliver lower GPs than what we have within the group. But that's a reflection of the way they've been doing business in the past. Some of the sales go to distributors and whatever.

We'll be looking to increase those GPs in those acquisition businesses as we go along in this half. We'll probably see a little more benefit in 2009/2010. But certainly in the US, for example, we're definitely seeing a softening of prices at the factory door, both in the Far East and also probably domestic US, as people are just hunting for business so we see in that supply chain, we've probably seen sort of six – 7% type decreases compared to say, six or seven months ago, so that will start to flow through at GP. The other one at GP is the quota for the US has been eliminated from 1 January, so that will also flow through into the GP line.

I think overall we're not anticipating [other] GP's effectively in this half.

Question: (Craig Woolford, Citigroup) Okay. The other point, just to understand the guidance, is an assumption on your repeat orders. Obviously the US market, are you assuming that that normalises back to how it was say, in FY08 or FY07?

Derek O'Neill: No, I mean we're basically taking a view that that's going to remain a little soft. We're going to build really less inventory for repeats and yeah, we're also predicting that there might be some accounts that need to push back the odd delivery here and there, not that we're encouraging that, but if really they need to we'll sit down and work through that. And we're also anticipating that there may be some accounts that we effectively decide we don't want to do business with any more.

Question: (Craig Woolford, Citigroup) Right. If I can ask a question about inventory, I don't know whether Craig an give us a breakdown in the same way he did with debt, but inventory was up $130 million; can you break that down into some of the components, in particular currency impacts versus retail impact versus wholesaling impacts?

Craig Naude: Look I don't have that calculation with me Craig, I could probably do that offline. I think – certainly in terms of the FX impact on inventory, but you could probably do some calculations yourself almost on relativities from the debt side.

In terms of acquisitions, they've obviously contributed to the increase, but you strip those out. Between wholesale and retail we haven't seen – put it this way – I do know from the analysis that we haven't seen a huge increase in inventory sitting in our own company under retail, which is intuitively what I thought we may see, but in fact that's not the case.

So I think the increase in inventory, excluding acquisitions on a constant currency basis, I think you'd say would be relatively evenly split between wholesale and retail, and across all regions around the world.

Question: (Craig Woolford, Citigroup) Sure. It's just more a strategic question, understand your retail strategy and whether that takes away some of your flexibility in managing inventory. Obviously you've still got that product until it's sold to the end customer. How are you going to deal with inventory if there is a substantial slowdown in retail more than you expect, do we get to a point where you do start discounting out the retail stores rather than factory outlets?

Paul Naude: If I can answer that, look the good news is that January retail comps made quite enough recovery compared to a pretty poor December, so that was a positive. I think we're going to see somewhat of a levelling off as we get into summer, particularly as it's a time with this industry in the northern hemisphere really hits its stride.

But with regards to the inventory, particularly from US point of view there's two things that I want to point out; first of all, about 40% of our business is printables, so in other words, the US blank supply chain, in other words, blank T-shirts, blank fleece and so on is a very developed business, and it eliminates virtually all of the risk. We cut really close to the market with regard to printables. Based on market conditions we've taken a pretty conservative approach to our cut and sew style purchases offshore.

And furthermore, in the US we have four distinct seasons; spring, summer, fall and holiday. Spring and summer generally have your key styles of carry over styles from spring into summer. So we feel that not only through our own retail stores, but through a far bigger majority of our independent account base, we believe that the opportunity to move strong selling styles which is where our inventory holdings are, we believe the opportunity to move those styles through by August are certainly very realistic.

Craig White: Craig, just to come back to a previous point, I was just doing some maths here; I'd say the FX impact on inventory, and this includes acquisitions, is probably in the mid 30 mils.

Question: (Craig Woolford, Citigroup) Mid 30 mils?

Craig White: Yeah, about 35.

Question: (Craig Woolford, Citigroup) So that's acquisitions and FX?

Craig White: No, I'm just saying, if you look at total inventory as reported, which includes the acquisitions, if you look at the net increase between the two, I'm saying I reckon about 35 would be FX.

Question: (Craig Woolford, Citigroup) Just if I can ask another question of Paul perhaps on retail inventories, not your own, but the retailers inventories and how they may look. I mean, my observation over the last 12 months would be that the industries, the surf wear suppliers sales growth has been ahead of retail sales growth for the surf retailers which would suggest there is some inventory overhang or build developing, and that may be a risk for the summer season?

Paul Naude: You can't sell winter goods in summer, we've just come out of winter. There was a pretty good – I mean even Pac Sun, Pac Sun have reduced their inventory levels by 30% where they're now starting to – they were in a mode of pushing orders out pre-New Year, they're now starting to pull orders forward in certain categories. You can read their own reports out there, they did have a deliberate pull back on inventory and it appears that not only them, but a lot of the bigger mall-based chains have worked their way through inventory over the December/January period. Surely not at any margin, but your question is related around the actual over abundance of inventory.

We are starting to see a dry up of excessive inventory in the market and I think that will continue. I think that by the time we get through to our summer, a lot of manufacturers simply don't have the capital to fund inventory on a maybe.

Question: (Craig Woolford, Citigroup) Just lastly Craig, what's the effective tax rate, or guidance for the effective tax rate for the full year?

Craig White: Well we obviously haven't given guidance, but I would expect it would be not dissimilar to that that we've reported for the first half.

Question: (Grant Saligari, Credit Suisse) Good morning guys. Just if you could help me understand the sell-through of stock that you've got. You've indicated it's not predominantly in your own retail operations, it's in wholesale and it's spread fairly evenly geographically. At what point through the year do you need to start taking markdowns on that stock if it doesn't sell through?

Craig White: I think, first of all what I'd say, Grant, is in terms of – we're obviously carrying inventory at cost, I think it's fairly rare that we would clear out inventory below cost. So in terms of net risk to the P&L of clearing that inventory, I don't see that there's significant risk of that.

Question: (Grant Saligari, Credit Suisse) What's the strategy though, if it doesn't sell through?

Craig White: You mean in terms of we've got inventory sitting in the warehouse that we can't sell?

Question: (Grant Saligari, Credit Suisse) Yes.

Derek O'Neill: Look, it's not like we build six years worth of stock on any one style. One of the necessary evils is outlet stores and while I don't think our retailers like them, and I wouldn't say that it's something we'd necessarily want to highlight, the fact is that our outlet stores are generally needing product rather than the other way around. So those outlet stores are a pretty efficient way of not only controlling your brand equity, but also getting rid of product.

In Europe and Australia that's generally how we work. As Paul's indicated, he also has outlet stores in the US, but he also has up his sleeve for whenever he needs to, those other channels that do a very efficient job of taking those broken sizes – when you've got 118 size 38 walk shorts left and no size 32.

Question: (Grant Saligari, Credit Suisse) Just so I understand the situation correctly, you could still be in a position where you need to increase perhaps materially the proportion of sales going through the outlet stores over the next three, four months?

Paul Naude: If I can answer; at this stage our prior season inventory, inventory that's older than 12 months, is actually less than it was this time last year. So we feel that we've done a pretty good job in managing inventory through these challenging market conditions to a point where we approach the spring season in a very keen position with current inventory. That combined with what I've already said, a conservative approach to sales [sound lost] is prudent and under control and we believe that there is going to be a demand for product come mid-year, although we have factored a significant increase in demand into the way we purchase, we believe that our inventory management is in line with expectations and in line with market conditions.

Derek O'Neill: And Grant, I'll just pitch in there; our understanding, just what we hear out in the general marketplace, is that there's no question that most companies would be sitting there in a similar place in terms of looking forward and going, well do we want to basically build lots of inventory on the chance that the sales may come, utilising for some of these smaller companies what would be extremely scarce funds to build inventory? The fact is, is it – our anticipation is not factored into our numbers, but our anticipation is that come April or May retailers are going to start knocking on the door for product, because the fact is that maybe some people are either not going to deliver or are just not going to have back up product – because in this environment why would you want to?

So we think the tables are going to turn quite fast with regards to product, and I don't think that it's going to lead to us having to dump a lot of product at all.

Craig White: To add to Derek's point, Grant, I think he's put this into context. If you actually exclude acquisitions, the inventory from acquisitions, and you look at just the increase compared to prior year and given the increased size of the overall business, we're not talking a material problem here.

I think inventory is higher than we'd like it to be, and as Paul said, and I clarified earlier, it's mostly current season inventory. But we're not talking a material quantity here, and I think from where we sit we think we can handle it within the context of the business structure we've got; the outlet stores and other channels.

Question: (Grant Saligari, Credit Suisse) So what is the contingency, what actions do you take if, heaven forbid, we do hope that through to mid-year is a lot better than December, but what if you do see continuing double-digit negative comps what action can you take in your business – I guess we're predominantly talking US – to help you hold your numbers, what further actions could you take?

Derek O'Neill: Look, I think you're talking Armageddon type stuff. We've already indicated we're already allowing for low double-digit comp negative in our own retail right through to the end of June. I think we're taking a view that the market's just going to remain quite weak.

You can also remember, we've got markets like Brazil that's exceptionally strong; economically Japan seems to be very ordinary, but our business there is going gangbusters. The fact is that we make product in central locations, if it really was to fall off a cliff in any one region, the fact is that we can just divert product into another region. We sell to over 100 countries around the world, not all of them are basket cases. The fact is I think we can deal with it.

It's pretty hard to plan for Armageddon, but on the other side I think that we can deal with most things. Now if Armageddon comes, I'll just quantify to everyone, the numbers are not allowing for Armageddon to come. I think we've all got bigger issues if that happens, but overall, we're allowing to deal with a pretty weak environment in this half, and I think still deliver a pretty good result.

Question: (Grant Saligari, Credit Suisse) Can you take more costs out of the US business?

Derek O'Neill: Look, I think we can take more costs if we really need to, but on the other side we've always run very high margin businesses. I think that we have got a concerted effort to get the US business back to the sort of healthy margins it has had in the past. I think that every one of our competitors would absolutely kill to have even what I call the depleted margin we have right now in the US. But the fact is that we won't take what I call extreme…

I'll just clarify – we'll be very careful on taking what I would call very extreme measures that would slash our business to try to achieve short term financial targets. At the end of the day, we think that there's short term, medium term and long term. We're not going to absolutely sacrifice the medium and long term. If you had Armageddon, we might wear [unclear].

Question: (Grant Saligari, Credit Suisse) Thanks for that answer. That clarifies it. The other thing about some of those long term opportunities… I mean, you've got a number of your competitors that seem in dire straits. I mean, Quiksilver in Asia Pacific seems terrible. Do these weaknesses present you with some opportunities here, and how might you take advantage of them?

Derek O'Neill: I think we're already starting to see some. I think that our opportunity is to work as closely as we can with the retail sector to give them the service across our brand portfolio to consolidate our business with them. The fact is that there's not a company in our industry right now that can offer what we offer. The fact is we'll be looking to consolidate on that. We think that in this environment we'll probably slow down the amount of retail openings in this period.

There will still be some, but nowhere near probably what you saw before. It doesn't mean we're going off them. We just think that probably in three months' time or six months' time the opportunities are actually even going to get better. The fact is that the positions that will become available, the terms that will become available, we think will be far better than what they are right now, and we'll be looking to take advantage of those. So I think the general weaknesses are going to throw up lots and lots of opportunities for our company.

Question: (Grant Saligari, Credit Suisse) Just a couple of quick ones, just a couple of points. I was just trying to relate Craig's comment earlier on the acquisitions contribution about $200 million to the debt increase. I'm just trying to relate that back to the cash consideration comments in the accounts, which if I'm adding it up correctly come up to sort of 130. I'm just wondering what I'm missing there.

Craig White: Well you've got the purchase of subsidiaries in the cash flow [unclear]. You've got property, plants and equipment in there as well. As I said, that 200 was a rough number. You put all those together, I mean you're not getting too far from the number.

Question: (Grant Saligari, Credit Suisse) But I'm not missing anything obvious there if I add up those acquisitions and the capex basically?

Craig White: No, I mean look, you're talking capex, total cash flow of about 182. So that's right.

Question: (Grant Saligari, Credit Suisse) Just finally, just trying to understand the comments on the Australasian region, you're saying their constant currency sales are up 4.8%. Then I read through the commentary. It looks like you're saying Japan and new Asian sales up 20%, South Africa constant currency up 10%. So you've basically got [unclear] Australia-New Zealand somewhere between 10% and 20%. New Zealand was up, and the comment is Australia down marginally. It would seem to me, just trying to weight those things, that Australia must have been done pretty materially, something like about 5%

Derek O'Neill: No, in fact, Australia overall was down about 1%, just a touch over 1% overall. New Zealand was up, but when you convert back into New Zealand dollars, that had an impact. When you convert the South African constant currency growth back into Australian dollars, with the drop in the Rand, that also was negative. No doubt Japan contributed to the majority of the currency's sort of ultimate benefit.

Question: (Grant Saligari, Credit Suisse) When you're talking new Asia, you're talking Malaysia and Singapore?

Derek O'Neill: Malaysia, Singapore, the Philippines, Indonesia, those areas. It's South East Asia effectively.

Craig White: Grant, just to come back to your previous point, one other thing I should probably just add is to remember in the cash flow statement those numbers in the net cash flows from investing activities are at the date that the acquisitions took place. Obviously the debt has restated at the spot rate of the balance sheet date, so you've got an FX movement between those two dates. That will contribute to some of the differences as well.

Question: (Christian Walker, Deutsche Bank) Good morning guys. I just want to expand, if you like, on a question earlier on, and just get a little more detail if I could in relation to some of the implemented initiatives that you've put through in the US. Maybe that's a question for you, Paul. Maybe you can just expand in relation to what exactly you're doing to reduce the costs there. Is it head count related? Is it accelerating some duplication that has happened from acquisitions recently?

Paul Naude: Well I think let's address retail first. Obviously, there has been some distress in retail, particularly in November/December. We started off the year by significantly reducing the shifts on the retail floor. Obviously, probably in excess of 80% of the retail staff are casuals, so we had the ability to be flexible there. That combined in terms of shifts, as well as reducing the head count at retail based on going into the peak period of December, has resulted in some significant savings.

We're also looking at – on the retail front we're having negotiations with landlords regarding lease reductions. We're having some success there. So on an overall basis, I think we've indicated in the literature today that we've reduced our overheads across the retail business around about 12%. On the wholesale side, we continue to be prudent in the way we approach the business and address all the things one would normally address in times like this, which would be continually reviewing range sizes, reduction in sampling costs.

There are some benefits. There is some job sharing taking place across the divisions now. We also continually review advertising and marketing expenses, as well as your usual variable costs such as travel, entertainment and so on. So there have been some significant savings achieved as we've got into the first part of this year.

To be honest with you Christian, as I said earlier, I don't think any of us could have anticipated the falloff we saw in retail in November and December. We simply could not go backwards quick enough in terms of cost cutting. I think that we've addressed those issues now and feel pretty confident that we're able to have some pick-up there without sacrificing any form of company equity.

Question: (Christian Walker, Deutsche Bank) Is it fair to say then, based on those comments, that it's largely done; like you've largely put those cost initiatives into place? Or is there still a little bit more around the edges that will be done during the second half?

Paul Naude: I think it's fair to say that we've put those cost initiative savings into place. Having said that, again, to get back to the Armageddon statement; if Armageddon comes, is there more that could be done? The answer is yes.

Question: (Christian Walker, Deutsche Bank) Just a final quick question in relation to the order book. The visibility that you're talking about in relation to the order book, is that around about April or a little bit further from there?

Derek O'Neill: April.

Paul Naude: As you guys know, over the years you've come to learn the difference between the US, Europe and Australasia is that we just work much closer to the market. It's just the way it is. For example, we will only launch the fall line in two weeks from now. [Unclear] fall will only start, and that's for delivery starting in the latter part of May.

So it's no different to any other area. We've still got plenty of indenting to go. Obviously we get a read from our major accounts in terms of the reaction to the line. The reaction to the fall line has been excellent. We feel that we're well positioned.

Question: (Penny [Hurd], Merrill Lynch) I think obviously you've covered the inventory position but I would like to go back to Craig's comments I guess about his comfort with the receivables and provisioning. You know we look at receivable to sales has increased some 44% last year to around 49% and you've highlighted a couple of times I guess that you are really focusing on the specialty guides and increasing market share there. Can you talk a bit about the risk of some of these customers actually going out of business in this market and do you think any of them or are a high proportion of your receivables under financial stress? I guess I'm just trying to get a bit more comfort around that $23 million you talk around in bad debts, how you came to that number and what it really factors in?

Craig White: Sure Penny. Well look let me make a comment and Paul will probably add to this. I think first of all, obviously part of the receivables increase relates to FX acquisitions but if you actually look at the quality of our receivables book, the actual aging of debtors greater than 90 days has not deteriorated at 31 December versus the same time last year which I think is pleasing.

I think we've flagged before that we've tried to be very tight on account management and I think part of that is showing up in the higher inventory balances of currencies and stock. There will be some customers that will form the view that they're not going to pay; well we're not going to ship them. But at least we have possession of the inventory and that's within our control to manage.

So the first point is the quality of the receivables book has not deteriorated. Are the risks higher in this environment? Look, I think you'd have to say that the risk probably is higher. Have we seen a material increase in the number of bad debts at this stage? No. We're obviously monitoring the bigger exposures very, very closely but you know as I said, we haven't seen at this stage, a material increase in that level of bad debt.

So there's not much more I can really add to that. Maybe Paul would like to make a comment about the US.

Paul Naude: Look Penny, to be quite honest, I've been pleasantly surprised at the lack of inactivity and bad debts on our receivables. I will say this. We have the dubious reputation of being the hardest in the industry to deal with and that is simply because we are the most disciplined.

We are seeing some of our competition really give extended dates in which to be quite honest suits us fine because it is going to free up some capital for customers to pay us first because we will hold our line and continue to do so. Our credit management team are in constant communication with customers. Obviously there is going to be some fallout but as Craig said, we like to think we head it off at the pass well enough in advance.

As I said, I'm surprised that we are as clean as we are right now on that subject and I can only put it down to the fact that our teams are pretty diligent in keeping on it.

Question: (Penny [Hurd], Merrill Lynch) As Craig said, I guess it has been reflected in you guys taking on perhaps more current inventory. If we're looking forward in six months to see that trend, do you think that is likely to continue as you have to support these specialty guys or would you hope to have this righted? I guess I'm just trying to say, is that push back the first sign that some of them might be facing a few more hardships?

Craig White: I don't think you can conclude that Penny. I mean I think if you look at the build up in currencies and inventory, I think that is something that we will manage and control and get back down to more reasonable levels by 30th of June. I'm not denying that there are risks out there and we're monitoring them. I'm just saying we haven't seen that. I think the other thing I would probably add is we obviously look at our exposure to major customers and if you look at say our top 5-10% debtors, they have declined as a percentage of total sales relative to the same time last year and I think, from a risk management point of view, that's probably a good thing. We have less exposure to larger customers.

Derek O'Neill: Penny, I'll just add though that one of the things we do – as Paul said, we are probably known to being the hardest. I mean it is not unknown for us to – you know if a retailer is somewhat struggling to pay their bills in a lot of cases, especially when you count all the brands we have, it is a pretty powerful statement if you say well we're not going to ship you anymore. What usually goes with that is that in a lot of cases, in these times, we want to have a look at their balance sheet. We want to have a look at their funding ability and frankly, if we don't like what we see, then we may just discontinue.

There is no registered bank sign outside the front of our door but in some ways we feel like a bit of a bank to some of the retailers. We have always supported them but if the real facts emerge that we are ultimately not going to get paid no matter what happens, then we are pretty fast to pull the pin and I would say we are usually the first ones out the door if we get the wobbles.

Question: (Penny [Hurd], Merrill Lynch) Absolutely. I mean I guess we are just trying to reconcile the comments around moving away from the major customers to more specialty and does that raise a higher risk? Obviously that is something that needs to be monitored. I guess moving perhaps…

Craig White: I think the other thing Penny, just quickly on that, is with the broader portfolio of brands that the group has got, I mean that clearly puts us in a strong position with those customers in terms of ensuring that the accounts are paid.

Paul Naude: Look Penny, I don't want to give the impression that there is absolutely zero fallout because that is not what I'm saying. What I'm saying is that I am surprised that it has been as contained as it has been. At the same time, the reverse of increasing risk with a broader account basis, that as a percentage your risk decreases. But there are going to be some casualties along the way, make no mistake but I think that we are well provisioned for it and we continue to monitor it as diligently as we always have.

Question: (Penny [Hurd], Merrill Lynch) Sure. I would have thought – as Derek I think mentioned – that the retail rollout is likely to slow down. You said it is not a moving away from that strategy but it is more about that it is just not the right time to be going as aggressively. Is that the right way to be looking at it?

Derek O'Neill: You look back on the last eight months and go, you know, it probably wasn't the right time to expand so far but the fact is I think it continues to solidify a market position. The fact though is that right now we're concentrating a little more on what we've got and as we said we think more opportunities are actually going to emerge.

Certainly, I don't expect landlords are going to be able to demand anything like they were demanding even three months ago and that is going to be a big advantage moving forward.

Question: (Penny [Hurd], Merrill Lynch) A final question. Europe was mentioned earlier and you had a really good result there. We are just starting to really hear parts of Europe are deteriorating even further and potentially Eastern Europe in particular looks to be approaching some pretty tough times. How do you prepare for that and do you think that that could potentially turn into a US style situation?

Derek O'Neill: Look I think the US style situation has been sort of thrown around for quite a while. I think we're hunkering down wherever we can in Europe. The fact is that our forward order book still looks pretty good. You know our products are selling through quite well. The good thing is that with a very cold winter retailers have come out of winter in an excellent position.

Overall, you sit there and you go well these challenges will probably come but they haven't. As I said, I've indicated Spain has been tough. I mean just to give you an idea how tough Spain has been, our numbers show that between stores we don't want to deal with and stores that have just closed, effectively about 10% of our account base in Spain has gone in the last 12 months. They've got something like 15% unemployment and youth unemployment is well into the 20s so it is pretty tough over there and that is currently our largest market. So you know that has been a tough one and we have had that in this result so we expect that to be tough moving forward.

We're seeing a couple of probable wobbles maybe in just a couple of months' time coming out of Italy. I think that Italy has been a real gross driver for four or so years will probably slow down really next. You know the UK for us has been tough for three maybe four years and as I said, we're coming off with a new base and we have made quite a lot of management changes there including quite significant changes in bringing some of our old reps back in the UK which I think is going to be a big positive. We expect a good performance in an ordinary economy there in the UK.

Germany – we don't think there are any issues and we are probably a little bit concerned just with Eastern Europe. It is only a small part of the business right now but a lot of the car industry make a lot of products over there and we know that some of the economies are going to get effected through unemployment over there. There is a lot of industry over there so we are kind of keeping our eye on that as well but I don't think we are going to really see what we saw in the UK.

Question: (Greg Dring, Macquarie) Good morning guys. Derek, you and the board must have an internal view of the value of your company?

Derek O'Neill: I think that we probably all take a view that it was somewhat higher than where it is today.

Question: (Greg Dring, Macquarie) So on that basis, should you be opening 60 something stores? Should you just be buying your shares back now and taking advantage of the stores' opportunities in the next 12 months?

Derek O'Neill: Well I think that when we took the decision to open those stores we didn't have the valuation we have today. I don't think that we look at stores as influence over our three month valuation for example and I'm not sure we're really in a position to necessarily launch a buy-back or something either.

Question: (Greg Dring, Macquarie) Okay, well perhaps something to think about. Can you just confirm something for me? The deterioration in group EBITDA margins of about 600 or 700 points, is that entirely the impact of the retail business such that your wholesale business margins didn't drop?

Derek O'Neill: No, I mean we had some decline in wholesale margins as well. The fact is that we have indicated that with the general slowdown in the US – and I'm talking mainly the US here – that we saw some deliveries pushed back. We saw the fact that not only with deliveries pushing back that repeats were lower. We didn't generally get the bottom line that we would have expected there. We saw significant decline to Pac Sun. You know Pac Sun will definitely end this year below 10% of our US sales and there were significant sales we just didn't get which we anticipated.

We had the Canadian dollar. We invoice into Canada. That had a significant impact on the US result – close to $2 million difference there from the Canadian dollar. There was quite a lot of things that didn't help wholesale at the same time as retail but it was predominantly retail.

Question: (Greg Dring, Macquarie) So when you say – I mean you know [unclear] say it is declining margins because it introduces the debate of cyclical versus structural and then you are certainly telling us a cyclical story and you're telling us that obviously a sharp improvement – in your release, you said a sharp improvement in margins in the second half.

Derek O'Neill: Okay, I'll give you an idea for the US. I don't think any of us are going to sit here and say that that 10% EBITDA margin was really a good result. I think it was a good result in the circumstances we face however it is not up to our normal sort of levels. Our view, with some of the cost savings that we are going to see and some of the GP movements that we will see, supply chain and that and the fact that we are going into this sort of summer period, is that we should see a rebalance of EBITDA margins in the US to be in the vicinity if not north of 15% in this half, which we'd start to get it back – it's not where it was say, a year ago – but certainly getting back to where it is that we'd like it to be.

Question: (Greg Dring, Macquarie) Okay, that's good. One of my favourite question; can you help us in whatever capacity you think is appropriate, I understand the relative size and growth of the brands in a constant currency basis just on a global view?

Derek O'Neill: There's so many brands now. I don't think I have it here, to be honest, Greg.

Question: (Greg Dring, Macquarie) Because all the commentary on the brands is grow globally, strong growth, grow globally, what about the really important one I guess, how is Billabong going on a global basis?

Derek O'Neill: Well Billabong, if you look at it on a wholesale basis, it was about flat. However, the way we look at it is we don't cap sales of our own brand to our own retail. Certainly if you incorporate everything we would have sold to our own retail, then Billabong itself would have been up.

We're not out there aggressively looking for growth. I think over the next 12 months we're going to look at all our cost lines and make sure we deliver quality, that's going to be our focus. And let's face it, growth would have come at the expense of margins in this period.

Question: (Greg Dring, Macquarie) Just trying to understand again components growth, did you take any of the smaller brands, ie any non-Billabong brands, into new markets this half? And if you did, would they have contributed much to growth?

Derek O'Neill: Let me just think about that. You're talking about the acquired brands or -?

Question: (Greg Dring, Macquarie) No, I'm just talking about the non-Billabong brands, have you taken any of them into new markets that they weren't previous in, in the geographic sense?

Derek O'Neill: Not that I can think of offhand, no. I mean, generally when we acquire them we try and – some markets like Brazil, for example, have [unclear] all the brands, but we didn't make a lot of those changes in this half, no. Certainly we're looking forward to, I think, getting DaKine further at a global level. We probably did start getting a little bit of push with Nixon a little further across into some of those Asian territories. Tigerlily in this half we'll be delivering some US retailers, so we think that's a little bonus. Every brand starts in a new territory at a very, very small level, it's not going to move the needle at all.

Question: (Greg Dring, Macquarie) Again, back into visibility with the various seasons that you're confronted, the indents you keep saying are strong, and when you say strong you're saying relative to expectations, or relative to last year – what does strong mean, 10%, 5%, 1% up?

Derek O'Neill: I went through the indents that we had before per region, and to us they're basically factored around what we did, what the indent was at the same time last year.

Question: (Greg Dring, Macquarie) What does strong mean, more than 5%, more than 2%?

Derek O'Neill: That's a good question; I mean certainly if you put DaKine on it's more than 10.

Can I just remind everybody, we'll have about five more minutes.

Question: (Ben Gilbert, UBS Sydney) Morning guys. Just a quick couple of questions. Firstly, just in terms of the company owned stores that you guys have taken on last year, what percentage of I suppose increased penetration you've had is Billabong product? I suppose what I'm trying to get at is, is that really the big driver that you've seen in terms of the forward orders, and if we look into 2010, is that not going to be there?

Derek O'Neill: No. I wouldn't know the exact penetration of Billabong, but let me say, if you look at the acquired businesses, both Quiet Flight and Two Seasons. The fact is that with Quiet Flight, when you buy a retail chain effectively, you take all the product that they have. So if you look at Quiet Flight really for the first stock turn, effectively we have no vertical benefit because we're just selling through everything that came with that acquisition. There really was the boost we'd probably see out of margins, in that first term we'll definitely start to see some of that in the second half.

We will be increasing the percentage of company brands in stores like Quiet Flight, and Two Seasons in the second half, which should give us a bit of a benefit. But with multibrand stores we can run anywhere from 30 up to

70% company owned brand, and we look wherever we can to try and find the balance between having a pretty exciting retail offer and getting more of our brands in there that we can. We just don't count company retail in our forward indent, so it's not related to that at all. As I said before, we look at Billabong and the business that we do, we probably should at some point count our own wholesale sales to our own retailers in those numbers, then our brand number would be much stronger, but we're just talking about the wholesale business there.

Question: (Ben Gilbert, UBS Sydney) Okay, so the wholesale, when you talk about forward specialty or forward orders in the specialty, sort of slightly positive that's X for your company owned stores?

Derek O'Neill: Correct.

Question: (Ben Gilbert, UBS Sydney) Okay. Just one final question; maybe if you could talk about what sort of increase you're going to be looking for in COGs in your Australian and European businesses, given you've talked around 7% falls in your costs, obviously currency is going to start to hurt a bit and how you're mitigating that?

Derek O'Neill: Sorry, comps in retail -?

Question: (Ben Gilbert, UBS Sydney) No, your cost of goods into Europe and Australia over the next six or 12 months with the currency?

Derek O'Neill: There's no question in May/June that we'll begin delivering product in both Europe and Australia from a product that will arrive from a higher cost base, because of currency. We have been increasing some prices in the current indent in Australia, with an average price increase sort of in the vicinity of around 10%. I think built within that we're also offering a lot more product with a slightly bigger margin for the retailers in Australia, and that's just a factor of the dramatic drop down of the value of the Australian dollar.

Europe as well we've raised a few prices, not quite as much – there hasn't been as big a climb down from the Euro to the US dollar. I would anticipate

– look I can't give guidance for moving forward – but we're conscious of the fact that with the climb in the currency that will probably slightly pressure GP margins moving forward, and we'll just have to look quite soon within the business to see how we're going to be with that. It's more a '09/'10 type issue, and I can't tell what the currency is going to be in three months time when we come to book in other parts of the season.

But we'll just have to take that in our stride. We've mitigated a fair bit of it, and certainly supply chain benefits will also help considerably on those GP lines as well.

Question: (Russell Wright, Patterson Securities) Good morning, gentlemen, I'm just glad to get this one squeezed in. In your previous guidance you talked about EBITDA growth of 20% along with the revenue growth of 25, but in this guidance you've omitted that, is that because you don't expect to do that even with the impairment charge being taken below the EBITDA line?

Derek O'Neill: I don't think that we can achieve 20%. One of the problems with giving guidance, and I've got to say, I would have just loved to have walked from guidance, purely because it's just really difficult to tell, what is each consumer going to be doing in April, May or June, or even next week for that matter.

If the Australian stimulus package kicks in – and I should just comment – we definitely saw a little kick from the Australian stimulus package in December, and I would argue that the next one is designed to actually fall in the pockets of a lot more of our customers. So we're pretty enthusiastic about it, but it's an unknown in this economy what they're going to do with that money.

We'd like to think that there might be a kick in Australia and therefore Australia has very high margins and maybe that sort of 20% is possible. But it's just the factor of take the order book, take the expectations of retail, take the currency as we see it, and give the guidance. As I said, it's pretty difficult stuff to forecast, but we're expecting EBITDA margin probably, if it all falls into place, where we are to be in the mid to high teens type area.

Question: (Russell Wright, Patterson Securities) It's just that market clearly doesn't think you're going to make your guidance, and anything you could give to help us understand that you're going to do so would be beneficial.

Derek O'Neill: I think anybody that travels around the world would know that we're in an excellent position in our industry. If your research is limited to Cronulla to Manley Corso then you might not take the same view. So I think that you've got to just do the work, find out what's happening, talk to retailers, we're in a very strong position and you know what, the consumer will come back at some point. And if ultimately they don't come back in this half, and we've allowed for a lot of them not to come back in this half, then so be it. But we're going to continue doing what we're doing. The market will always take its own view.

Okay everybody. I'd just like to thank everybody for the call, and both Craig and I remain available over the next couple of months as we've now come out of blackout period. Thanks for the quality of the questions.

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